

PUBLIC DISCLOSURE

March 20, 2018

COMMUNITY REINVESTMENT ACT PERFORMANCE EVALUATION

Valley Bank of Ronan
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P.O. Box 9
Ronan, Montana 59864-0009
RSSD 624956

**Federal Reserve Bank of Minneapolis
90 Hennepin Avenue, P.O. Box 291
Minneapolis, MN 55480-0291**

NOTE: This document is an evaluation of this institution's record of meeting the credit needs of its entire community, including low- and moderate-income neighborhoods, consistent with the safe and sound operation of the institution. This evaluation is not, nor should it be construed as, an assessment of the financial condition of this institution. The rating assigned to this institution does not represent an analysis, conclusion, or opinion of the federal financial supervisory agency concerning the safety and soundness of this financial institution.

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Definitions for many of the terms used in this performance evaluation can be found in section 228.12 of Regulation BB. For additional convenience, a Glossary of Common CRA Terms is attached as Appendix A at the end of this performance evaluation.

INSTITUTION'S CRA RATING: This institution is rated Outstanding.

Examiners evaluated the Community Reinvestment Act (CRA) performance of Valley Bank of Ronan, Ronan, Montana, using the Small Bank CRA Examination Procedures (Procedures). Based on the bank's asset size and financial condition, the bank effectively meets the credit needs of small farms, small businesses, and residents in its assessment area.

Several factors support the bank's Outstanding rating.

- Overall, the bank's lending to farms and businesses of different sizes and to borrowers of different income levels is reasonable.
- The geographic distribution of the bank's loans reflects reasonable dispersion throughout the assessment area.
- The bank's net loan-to-deposit ratio is more than reasonable given the bank's asset size and financial condition as well as the credit needs of the assessment area. The bank's community development loans supplement the bank's lending performance.
- The bank originated a substantial majority of its loans within the assessment area.
- The bank's qualified investments and community development services enhance credit availability in the assessment area.

The bank received an Outstanding rating at the previous CRA evaluation, conducted October 22, 2012.

SCOPE OF EVALUATION

The scope of the evaluation covers the bank's major product lines. Examiners based the evaluation on a statistical sample of 141 consumer and 55 small business loans originated between April 1, 2017, and September 30, 2017; 44 residential real estate loans originated between December 1, 2016, and November 30, 2017; and 104 small farm loans originated between October 1, 2016, and September 30, 2017. Table 1 displays the bank's loan origination activity in 2016.

TABLE 1¹				
Loan Originations From January 1, 2016, through December 31, 2016				
<i>Loan Type</i>	<i>Number of Loans</i>	<i>Percentage of Total Number</i>	<i>Total Loan Dollars</i>	<i>Percentage of Total Dollars</i>
Construction/Land Development	8	1.6	\$ 596,494	2.0
Consumer	262	51.2	2,763,959	9.1
Home Equity Lines of Credit	2	0.4	508,000	1.7
Residential Real Estate	76	14.8	12,668,814	41.9
Small Business (\leq \$1 million)	66	12.9	7,114,225	23.5
Small Farm (\leq \$500,000)	97	19.0	5,829,147	19.3
Agricultural ($>$ \$500,000)	1	0.2	750,000	2.5
Total	512	100.0	\$30,230,639	100.0

¹Note: Because the percentages presented in the tables are rounded to the nearest tenth, some columns or rows may not total 100.0%.

Examiners analyzed the following performance criteria to determine the bank's CRA rating:

- Lending to farms and businesses of different sizes and to borrowers of different income levels
- Geographic distribution of loans
- Net loan-to-deposit ratio
- Lending inside the assessment area
- Record of responding to complaints about the bank's CRA performance

Examiners gave the greatest weight to the first two criteria listed above. Examiners gave the bank's net loan-to-deposit slightly less weight, and lending inside the assessment area was given the least weight. The bank has not received any CRA-related complaints since the previous examination. Examiners weighted all products equally, based on lending activity and loan portfolio composition.

At the option of bank management, and in accordance with the Procedures, examiners reviewed the bank's qualified investments and community development services. Examiners also reviewed the bank's community development loans. The bank provided examiners with community development activities that had the most impact for review. These community development activities enhance the bank's overall CRA rating. The evaluation period for community development activities is October 22, 2012, to March 19, 2018.

The evaluation is based in part on discussions with bank management and interviews with members of the community familiar with economic issues and demographic characteristics of the assessment area. Examiners used information from these sources to evaluate the bank's CRA performance.

DESCRIPTION OF INSTITUTION

Structure, Offices, and Delivery Systems. Valley Bank of Ronan is a full-service institution with its main office in Ronan. The bank operates as a subsidiary of Valley Holding Company, a one-bank holding company also based in Ronan. The bank operates five full-service branches in Montana, located in Arlee, Hot Springs, Polson, St. Ignatius, and Thompson Falls. The bank also operates two limited-service branches in grocery stores in St. Ignatius and Pablo, Montana. The bank operates 12 cash-dispensing-only ATMs. Each office has an ATM, and the bank operates four stand-alone ATMs in Montana in Charlo (two), Plains, and Ronan. The bank's office hours are reasonable for the communities it serves. Six offices offer both weekend and extended hours. The bank's main office and full-service branches operate drive-up facilities. The bank also offers online and mobile banking, as well as bill-payment services.

Since the previous evaluation, the bank consolidated the operations of its limited-service branch in a grocery store in Ronan with its main office. In addition, the bank relocated its limited-service branch in a grocery store in Polson to a nearby location. Finally, in April 2015, the bank acquired Lake County Bank, St. Ignatius, Montana; accordingly, the bank's full-service St. Ignatius branch is new since the previous evaluation.

Loan Portfolio. According to the December 31, 2017, Report of Condition, the bank's assets total \$101.5 million. The bank's \$59.1 million loan portfolio consists of 44.6% commercial, 21.8% residential real estate, 20.6% agricultural, 10.3% consumer, and 2.7% other loans. This composition remains relatively similar to the portfolio composition at the previous evaluation. However, the loan portfolio increased by 42.5% since the previous evaluation because of loan growth and the acquisition of Lake County Bank.

Credit Products. The bank offers a variety of loan products to help meet the credit needs of the farms, businesses, and consumers in the assessment area. In addition to offering conventional loan products, the bank participates in government-sponsored programs, including programs through the Farm Service Agency, U.S. Small Business Administration, U.S. Department of Agriculture Rural Development, U.S. Department of Veterans Affairs, Federal Housing Administration, Montana Housing, Bureau of Indian Affairs, and U.S. Department of Housing and Urban Development (Section 184 loans).

Deposit Market Share. According to the June 30, 2017, Federal Deposit Insurance Corporation (FDIC) Deposit Market Share Report, the bank ranks second out of six FDIC-insured institutions operating in Lake and Sanders counties, with 16.5% of the market share.

DESCRIPTION OF ASSESSMENT AREA

Bank Information and Assessment Area. The bank's assessment area consists of Sanders County and a large portion of Lake County, and is located in northwestern Montana. Since the previous examination, bank management made changes to its assessment area. Specifically, the assessment area no longer includes one census tract in Flathead County and one census tract in Missoula County. The bank based the decision on changes in the geographic size of these tracts, which increased substantially because of the 2010 Census and would be too large to reasonably serve. The bank's assessment area includes a very large portion of the Flathead Indian Reservation. Small portions of this reservation are located in the two tracts that are no longer part of the bank's assessment area. Nonetheless, the bank continues to extend some loans in these tracts and is committed to lending throughout the reservation. The bank did not change its assessment area after acquiring Lake County Bank because Lake County Bank's footprint largely fell within the bank's assessment area.

The bank's assessment area includes nine census tracts. The Federal Financial Institutions Examination Council (FFIEC) adjusted census data² changed the income classification for several tracts between 2016 and 2017. In 2016, the assessment area had one low-income, three moderate-income, and five middle-income tracts. In 2017, the classifications changed to four moderate-income and five middle-income tracts. Finally, in 2017, the five middle-income tracts in Lake County were classified as distressed because of the poverty level; 21.1% of the households in this county are below the poverty level.

As mentioned earlier, the Flathead Indian Reservation is located in the bank's assessment area. A community contact estimated that there are 8,000 members of the Confederated Salish and Kootenai Tribes (Tribes), and 5,500 tribal members live on the reservation.

Table 2 shows the demographic characteristics of the assessment area based on 2017 FFIEC adjusted census data and 2016 Dun & Bradstreet data.

²The FFIEC adjusted census data is based on decennial U.S. Census data and American Community Survey five-year estimate data, and it also reflects the Office of Management and Budget metropolitan statistical area revisions.

TABLE 2 Assessment Area Demographics								
<i>Income Categories</i>	<i>Tract Distribution</i>		<i>Families by Tract Income</i>		<i>Families < Poverty Level as % of Families by Tract</i>		<i>Families by Family Income</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	3,181	31.2
Moderate Income	4	44.4	4,260	41.8	871	20.4	2,155	21.2
Middle Income	5	55.6	5,925	58.2	843	14.2	1,895	18.6
Upper Income	0	0.0	0	0.0	0	0.0	2,954	29.0
Total Assessment Area	9	100.0	10,185	100.0	1,714	16.8	10,185	100.0
<i>Income Categories</i>	<i>Housing Units by Tract</i>	<i>Housing Types by Tract</i>						
		<i>Owner-Occupied</i>			<i>Rental</i>		<i>Vacant</i>	
		#	%	%	#	%	#	%
Low Income	0	0	0.0	0.0	0	0.0	0	0.0
Moderate Income	8,242	4,516	41.5	54.8	1,932	23.4	1,794	21.8
Middle Income	12,205	6,373	58.5	52.2	2,758	22.6	3,074	25.2
Upper Income	0	0	0.0	0.0	0	0.0	0	0.0
Total Assessment Area	20,447	10,889	100.0	53.3	4,690	22.9	4,868	23.8
<i>Income Categories</i>	<i>Total Businesses by Tract</i>		<i>Businesses by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	756	36.2	701	36.2	41	33.1	14	46.7
Middle Income	1,334	63.8	1,235	63.8	83	66.9	16	53.3
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	2,090	100.0	1,936	100.0	124	100.0	30	100.0
Percentage of Total Businesses:				92.6		5.9		1.4
<i>Income Categories</i>	<i>Total Farms by Tract</i>		<i>Farms by Tract and Revenue Size</i>					
			<i>≤ \$1 Million</i>		<i>> \$1 Million</i>		<i>Revenue Not Reported</i>	
	#	%	#	%	#	%	#	%
Low Income	0	0.0	0	0.0	0	0.0	0	0.0
Moderate Income	104	39.1	103	39.0	1	50.0	0	0.0
Middle Income	162	60.9	161	61.0	1	50.0	0	0.0
Upper Income	0	0.0	0	0.0	0	0.0	0	0.0
Total Assessment Area	266	100.0	264	100.0	2	100.0	0	0.0
Percentage of Total Farms:				99.2		0.8		0.0

Income. For purposes of classifying borrowers by income level, this evaluation uses the FFIEC's estimated median family income for the nonmetropolitan areas of Montana. This figure is \$60,300 for 2016 and \$60,500 for 2017. For purposes of classifying census tracts by income level, this evaluation relies on the FFIEC's adjusted census data median family income, which was \$54,061 in 2016 and \$59,958 in 2017, for nonmetropolitan Montana.

Population. According to 2017 FFIEC adjusted census data, the population of the bank's assessment area is 37,414. As of 2017, the assessment area includes four moderate-income tracts with 15,502 residents, or 41.4% of the area's population. The percentages of low-income (30.2%) and moderate-income (21.1%) households in the assessment area are higher than the percentages for the state of Montana, which are

23.8% and 16.6%, respectively. The largest city in the assessment area is Polson, the county seat of Lake County, with a 2016 ACS five-year population estimate of 4,674. The FFIEC adjusted census data indicates that 19.4% of the residents in the assessment area are American Indian.

General Economic and Business Characteristics. According to bank management and community contacts, overall, the local economy is stable. However, the agricultural market is struggling because of high operational costs and low crop prices. Bank management stated that agricultural operations in the area focus mainly on cattle, grain, and potatoes. Tourism also plays a significant role in the economy. A large portion of Flathead Lake is in Lake County and attracts many visitors.

Major employers include the Tribes, hospitals, the local school districts, and a variety of manufacturing businesses. The Tribes are one of the largest employers in the area. A contact estimated that the tribal government employs 1,400 people. In addition, the Tribes operate six corporations in the area as well as a college that draws local tribal members and American Indians from across the country. According to a contact, one of the Tribes' largest corporations is an entity that focuses on technology contracts with U.S. military forces. The Tribes also own a hydroelectric energy company, a full-service financial institution, a manufacturing company, a small business incubator, and a gaming company that owns recreational sites and casinos in the area.

A contact indicated that employment opportunities are available in the area; however, these jobs typically pay low wages. The contact stated that educated workers typically have a hard time finding jobs. This lack of higher-paying jobs in the area means that many of the local residents struggle to purchase a home.

According to the Bureau of Labor Statistics, the 2017 annual average nonseasonally adjusted unemployment rate was 4.4% for Lake County and 7.0% for Sanders County; these percentages are higher than the statewide Montana annual average rate of 4.0% for the same period.

Housing. Affordable housing continues to be a challenge for many residents. Contacts noted that there is not a sufficient supply of quality affordable housing available, especially for those wishing to rent homes and apartments in the area. Further, home prices are too high for many residents given the area's wages. Local wages remain steady, but on average they are too low for many of the residents to afford the taxes and other costs associated with housing. A contact stated that many individuals in the area inherit their homes and then struggle to make the payments, due to the high taxes. A contact also indicated that land is available to build homes on; however, construction costs are very high.

CONCLUSIONS WITH RESPECT TO PERFORMANCE CRITERIA

The bank's performance in meeting the credit needs of its assessment area is rated Outstanding. Overall, the bank's lending to low- and moderate-income borrowers and to farms and businesses of different sizes is reasonable. The geographic distribution of loans is reasonable and does not reveal any unexplained gaps in lending. The bank's net loan-to-deposit ratio is more than reasonable; the bank's community development lending supplements the bank's lending performance. The bank originated a substantial majority of its loans within its assessment area. Finally, the bank's qualified investments and services enhance credit availability in the assessment area and the bank's overall CRA rating.

LENDING TO FARMS AND BUSINESSES OF DIFFERENT SIZES AND TO BORROWERS OF DIFFERENT INCOME LEVELS

Small Farm Lending. The bank's lending to small farms is reasonable. Table 3 displays the bank's small farm lending in the assessment area.

TABLE 3				
Small Farm Lending				
<i>Small Farm Originations</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$500,000$	<i>Total Originations</i>
Percentage of Small Farm Loans	87.3%	8.8%	3.9%	100.0%
Percentage of Loans to Farms with Revenues of \$1 Million or Less	88.1%	7.9%	4.0%	99.0%

The bank originated 99.0% of its small farm loans to farms with gross annual revenues of \$1 million or less. According to 2016 Dun & Bradstreet data, 99.2% of the farms in the assessment area are small farms. The bank's lending is consistent with demographics. Of the small farm loans to farms with revenues of \$1 million or less, 88.1% were in amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller farms.

Small Business Lending. The bank's lending to small businesses is reasonable. Table 4 displays the bank's small business lending in the assessment area.

TABLE 4				
Small Business Lending				
<i>Small Business Originations</i>	$\leq \$100,000$	$> \$100,000$ to $\leq \$250,000$	$> \$250,000$ to $\leq \$1,000,000$	<i>Total Originations</i>
Percentage of Small Business Loans	92.3%	1.9%	5.8%	100.0%
Percentage of Loans to Businesses with Revenues of \$1 Million or Less	95.7%	0.0%	4.3%	88.5%

The bank originated 88.5% of its small business loans to businesses with gross annual revenues of \$1 million or less. According to 2016 Dun & Bradstreet data, 92.6% of the businesses in the assessment area are small businesses. The bank's lending is slightly below demographics. Of the small business loans to businesses with revenues of \$1 million or less, 95.7% were in amounts of \$100,000 or less, which indicates a willingness to serve the credit needs of smaller entities.

Residential Real Estate Lending. The bank's residential real estate lending to low- and moderate-income borrowers is reasonable. Table 5 shows that the bank originated 2.8% of its residential real estate loans to low-income borrowers. This is below demographics, which indicate that 31.2% of the families in the assessment area are low income. The bank originated 8.3% of its residential real estate loans to moderate-income borrowers. This is also below demographics, which indicate that 21.2% of families in the assessment area are moderate income. Overall, the bank extended 11.1% of its loans to low- and moderate-income borrowers, compared to demographics at 52.4%.

Although the bank's lending to low- and moderate-income borrowers is lower than demographics, it can be explained. Using the assumption that a borrower can obtain a loan for approximately three times annual income, an individual with the highest income in the low-income bracket (\$30,249) would be able to afford a \$90,747 home, based on the 2017 FFIEC estimated median family income of \$60,500 for

nonmetropolitan Montana. An individual with the highest income in the moderate-income bracket (\$48,399) would be able to afford a \$145,197 home. This data suggests that the 2017 FFIEC census data median housing value of \$199,381 would not be affordable for many low- and moderate-income residents. A contact stated that many residents in the area struggle to transition from renting to owning a home because of high home prices and taxes.

Finally, the bank participates in a number of flexible lending programs, including first-time homebuyer programs, which help serve the needs of low- and moderate-income borrowers.

TABLE 5										
Distribution of Loans in the Assessment Area by Borrower Income Levels*										
Loan Type	Low Income		Moderate Income		Middle Income		Upper Income		Unknown Income	
	#	\$	#	\$	#	\$	#	\$	#	\$
Consumer	51.5%	32.2%	23.8%	21.1%	11.5%	16.2%	10.8%	24.3%	2.3%	6.3%
Residential Real Estate	2.8%	0.4%	8.3%	5.5%	30.6%	21.9%	58.3	72.1%	0.0%	0.0%
Percentage of Households by Income Levels**	30.2%		21.1%		16.8%		31.9%		N/A	
Percentage of Families by Income Levels**	31.2%		21.2%		18.6%		29.0%		N/A	
*Median family income for the nonmetropolitan areas of Montana is \$60,500 for 2017 and \$60,300 for 2016.										
**Based on 2017 FFIEC adjusted census data.										

Consumer Lending. The bank's consumer lending to low- and moderate-income borrowers is excellent, particularly to low-income borrowers. As shown in Table 5, the bank extended 51.5% of its consumer loans to low-income borrowers. This significantly exceeds demographics, which show that 30.2% of households in the assessment area are low income. The bank extended 23.8% of its consumer loans to moderate-income borrowers. This is slightly above demographics, which indicate that 21.1% of households in the assessment area are moderate income.

The bank provides small-dollar loans, which help serve the needs of low- and moderate-income borrowers. Of the loans in the sample, 40.0% were for amounts of \$3,000 or less. Of these small dollar loans, 88.5% were to low- and moderate-income borrowers. The bank charges minimal fees on consumer loans.

GEOGRAPHIC DISTRIBUTION OF LOANS

The geographic distribution of loans reflects reasonable dispersion throughout the assessment area and does not reveal any unexplained gaps in lending.

For purposes of the evaluation, examiners analyzed each year separately (for residential real estate and small farm loans) in order to more accurately assess the bank's lending in low- and moderate-income tracts. As previously mentioned, these samples include loans from 2016 and 2017. Several census tracts in the bank's assessment area underwent income classification changes from 2016 to 2017. According to the 2016 FFIEC census data, the assessment area included one low-income, three moderate-income, and five middle-income tracts. According to the 2017 FFIEC census data, the assessment area includes four moderate-income and five middle-income tracts. In Lake County, tracts 9403.01 and 9406.00 changed from moderate income to middle income, and tract 9404.00 changed from middle income to moderate income. In Sanders County, tract 1.00 changed from middle income to moderate-income and tract 9403.00 changed from low income to moderate income.

The majority of the bank's lending occurs in Lake County; six of the bank's offices, including the main office, are located in this county. The bank's Hot Springs and Thompson Falls branches are in moderate-income tracts in Sanders County based on 2017 FFIEC census data. In 2016, the Hot Springs branch was in the low-income tract, and the Polson, St. Ignatius (two), and Thompson Falls branches were in moderate-income tracts. All but one of the bank's offices are located on the Flathead Indian Reservation. Overall, the bank originated a majority of its loans in the middle-income tracts, which is reasonable given that the majority of the assessment area's farms, businesses, and residents are located in these tracts.

Table 6 shows the geographic distribution of the bank's residential real estate and small farm loans in 2016.

TABLE 6 Geographic Distribution of Residential Real Estate and Small Farm Loans by Census Tract Income Level in 2016*												
Loan Type Sample	Low Income				Moderate Income				Middle Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%	#	%	\$(000)s	%
Residential Real Estate	1	20.0	61	4.2	1	20.0	379	26.1	3	60.0	1,016	69.8
Small Farm	6	18.8	240	11.9	13	40.6	320	15.9	13	40.6	1,456	72.2
Demographic Data												
Number of Census Tracts	1				3				5			
Percentage of Census Tracts	11.1%				33.3%				55.6%			
Percentage of Families	5.6%				41.9%				52.6%			
Percentage of Farms**	8.6%				35.7%				55.6%			
*Income classification of census tracts based on 2016 FFIEC census data.												
**Percentages are based on 2016 Dun & Bradstreet data.												

Table 7 shows the geographic distribution of all four loan types in 2017.

TABLE 7 Geographic Distribution of Loans by Census Tract Income Level in 2017*								
Loan Type Sample	Moderate Income				Middle Income			
	#	%	\$(000s)	%	#	%	\$(000s)	%
Consumer	43	33.1	185	21.1	87	66.9	692	78.9
Residential Real Estate	10	32.3	1,384	25.7	21	67.7	4,010	74.3
Small Business	12	23.1	349	10.4	40	76.9	3,001	89.6
Small Farm	20	28.6	666	21.7	50	71.4	2,398	78.3
Demographic Data								
Number of Census Tracts	4				5			
Percentage of Census Tracts	44.4%				55.6%			
Percentage of Families	41.8%				58.2%			
Percentage of Households	41.4%				58.6%			
Percentage of Businesses**	36.2%				63.8%			
Percentage of Farms**	39.1%				60.9%			
*Income classification of census tracts based on the 2017 FFIEC census data.								
**Percentages are based on 2016 Dun & Bradstreet data.								

Small Farm Lending. Overall, the distribution of small farm loans is reasonable. Table 6 shows that in 2016 the bank originated 18.8% of its small farm loans in the low-income census tract and 40.6% in the moderate-income tracts. These percentages were both above demographics. According to 2016 Dun & Bradstreet data, 8.6% of farms were located in the low-income tract and 35.7% were located in the moderate-income tracts. The bank made several loans in the low-income tract and several loans in moderate-income tract 9406.00 in Lake County. In 2016, the bank did not extend small farm loans in moderate-income tract 9403.01 in Lake County; the city limits of Polson and other communities are in this tract, which limit small farm lending opportunities. The bank also did not extend small farm loans in moderate-income tract 2.00 in Sanders County, an area with national forest land.

Table 7 shows that in 2017 the bank originated 28.6% of its small farm loans in moderate-income tracts. This is below demographics for the area. According to the 2016 Dun & Bradstreet Data, 39.1% of farms in the assessment area are located in moderate-income tracts. The bank originated small farm loans in most of the moderate-income tracts. The bank did not extend a small farm loan in moderate-income tract 1.00 in Sanders County; the bank does not have a branch in this tract and it is a forested area. Further, in 2017, most moderate-income tracts were located in the western portion of the bank's assessment area, where there are fewer branches.

Small Business Lending. The distribution of the bank's small business loans is reasonable. The bank originated 23.1% of its small business loans in moderate-income tracts, which is below area demographics. According to 2016 Dun & Bradstreet data, 36.2% of the businesses in the assessment area are located in the moderate-income tracts. Although the bank's small business lending is below demographics, this is reasonable. As previously mentioned, most moderate-income tracts are located in the western portion of the bank's assessment area, where there are fewer branches. The bank originated small business loans in most of the moderate-income tracts. Similar to small farm loans in 2017, the bank did not extend a small business loan in moderate-income tract 1.00 in Sanders County, which is reasonable.

Residential Real Estate Lending. The distribution of the bank's residential real estate loans is reasonable. In 2016, the bank originated 20.0% (one loan) of its residential real estate loans in the low-income tract and 20.0% (also one loan) in a moderate-income tract. According to 2016 FFIEC census data, 5.6% of families in the assessment area reside in low-income tracts and 41.9% reside in moderate-income tracts. The bank did not extend a residential real estate loan in moderate-income tract 9403.01 (several other financial institutions operate in this area) in Lake County or in moderate-income tract 2.00 (national forest land) in Sanders County, which is reasonable.

In 2017, the bank originated 32.3% of its residential real estate loans in moderate-income tracts. According to the 2017 FFIEC census data, 41.8% of families in the assessment area reside in moderate-income tracts and 41.5% of owner-occupied units are located in the moderate-income tracts. While below demographics, the bank's lending is reasonable, given the performance context. The bank originated real estate loans in every census tract in the assessment area.

Consumer Lending. The distribution of consumer loans is reasonable. As shown in Table 7, the bank originated 33.1% of its consumer loans in the moderate-income tracts. The bank's performance is below demographics, which indicate that 41.4% of households in the assessment area are in the moderate-income tracts, but it is reasonable given the performance context. The bank originated consumer loans in every census tract in the assessment area.

LOAN-TO-DEPOSIT RATIO ANALYSIS

The bank's net loan-to-deposit ratio is more than reasonable, given the bank's asset size and financial condition and the credit needs and competition in the assessment area. The bank's community development lending supplements its lending performance and further illustrates the bank's commitment to meeting the credit needs of the assessment area.

As of December 31, 2017, the bank's net loan-to-deposit ratio is 63.9%, which is below the net loan-to-deposit ratio for the peer group at 77.2%. The bank's peer group includes insured commercial banks not located in a metropolitan statistical area that have assets between \$100 million and \$300 million and three or more full-service banking offices.

The bank's average net loan-to-deposit ratio for the past 21 quarters is 58.1%. At the previous evaluation, the bank's 20-quarter average net loan-to-deposit ratio was 78.0%. Since then, the bank's quarterly net loan-to-deposit ratio has ranged from 49.0% to 65.5%, and has been steadily increasing because of loan growth since the low of 49.0%.

Bank management indicated that several factors affected the bank's net loan-to-deposit ratio during the current evaluation period. First, many long-term customers of an acquired community bank (by a larger regional bank) moved their deposit accounts to Valley Bank of Ronan. The lending market is also highly competitive because a number of banks, including large regional banks, operate in the area. Finally, the bank's total deposits increased more than net loans when it acquired Lake County Bank.

Community contacts indicated that overall, local financial institutions are meeting credit needs of the area.

Table 8 shows the 21-quarter average net loan-to-deposit ratios for the bank and one other institution operating in the bank's assessment area. As shown, the bank's average net loan-to-deposit ratio is above this institution.

TABLE 8		
21-Quarter Average Net Loan-to-Deposit Ratios		
<i>Bank Name and Location</i>	<i>Total Assets as of December 31, 2017 (in thousands)</i>	<i>Average Net Loan-to-Deposit Ratio</i>
Valley Bank of Ronan Ronan, Montana	\$101,547	58.1%
Eagle Bank Polson, Montana	\$65,371	49.2%

Community Development Lending. The bank originated three community development loans for approximately \$4.3 million during the evaluation period. One of the loans helped retain a sizeable number of jobs and residents in a distressed tract in Lake County. Another loan was to a local school in a moderate-income tract and used to upgrade the school's infrastructure. Finally, the bank renewed a loan for an assisted living facility, which helped revitalize and stabilize a distressed area. These loans supplement the bank's lending performance and show the bank's willingness to meet the credit-based needs of the assessment area.

COMPARISON OF CREDIT EXTENDED INSIDE AND OUTSIDE THE ASSESSMENT AREA

Overall, the bank originated a substantial majority of its loans to borrowers within the assessment area, specifically 93.0% by number and 90.8% by dollar amount. Table 9 shows the bank's lending inside and outside its assessment area by loan type.

TABLE 9								
Distribution of Loans Inside and Outside the Assessment Area								
<i>Loan Category</i>	<i>Inside</i>				<i>Outside</i>			
	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>	<i>#</i>	<i>%</i>	<i>\$(000s)</i>	<i>%</i>
Consumer	130	92.2	877	86.2	11	7.8	140	13.8
Residential Real Estate	36	81.8	6,850	82.7	8	18.2	1,429	17.3
Small Business	52	94.5	3,350	98.9	3	5.5	37	1.1
Small Farm	102	98.1	5,080	99.4	2	1.9	33	0.6
Total	320	93.0	16,157	90.8	24	7.0	1,639	9.2

By number and dollar amount, residential real estate loans comprised the largest percentage of lending outside the assessment area. These eight loans were not concentrated in any specific area; the bank extended four of these loans in Montana, and the remaining loans were to borrowers residing in other states.

QUALIFIED INVESTMENTS AND SERVICES

Since the previous evaluation, the bank made qualified investments and provided community development services that enhance credit availability in its assessment area, as well as the bank's overall CRA rating.

Qualified Investments. The bank made qualified investments that enhance its CRA performance. The bank purchased a new qualified investment in the form of a bond for \$160,000. The purpose of this bond was to improve the local waterfront in Polson. The goal of this improvement was to eliminate blight in the area and attract new business. The bank's investment helped revitalize and stabilize a distressed area in Polson by attracting and retaining businesses and residents. The bank also made qualified investments in the form of donations since the previous evaluation. The bank made large donations to a hospital and medical clinic, which helped retain residents and jobs in a distressed area. The bank also made sizeable donations to schools that serve low- and moderate-income students and to a college that serves tribal members. Finally, the bank donated to a number of organizations that serve low- and moderate-income individuals in the community.

Community Development Services. The bank provided community development services that enhance its CRA performance. Eight bank employees provided services during the evaluation period to twelve organizations. Officers and bank staff provided services to organizations that provide community services to low- and moderate-income individuals, promote economic development, and help revitalize or stabilize distressed parts of the assessment area. In addition, an employee provided services that promote affordable housing, which is particularly noteworthy given the affordable housing concerns in the assessment area. At these organizations, bank staff holds a variety of positions, including serving as board members, treasurers, and financial literacy instructors. The focus of the bank's services is very responsive to the identified needs of the assessment area.

RECORD OF RESPONSE TO CRA-RELATED COMPLAINTS

Neither the bank nor the Federal Reserve Bank of Minneapolis has received any CRA-related complaints concerning the bank since the previous evaluation.

FAIR LENDING OR OTHER ILLEGAL CREDIT PRACTICES REVIEW

The examination did not reveal any evidence of violations of antidiscrimination laws or regulations (including Regulation B – Equal Credit Opportunity Act and the Fair Housing Act) or other illegal credit practices inconsistent with the bank helping to meet community credit needs.

Appendix A

Glossary of Common CRA Terms

Aggregate lending: The number of loans originated and purchased by all reporting lenders in specified income categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

Census tract: A small subdivision of metropolitan and other densely populated counties. Boundaries do not cross county lines; however, they may cross the boundaries of metropolitan statistical areas. Census tracts usually have between 2,500 and 8,000 persons, and their physical size varies widely depending on population density. Census tracts are designed to be homogeneous with respect to population characteristics, economic status, and living conditions to allow for statistical comparisons.

Community development: An activity associated with one of the following five descriptions: (1) affordable housing (including multifamily rental housing) for low- or moderate-income individuals; (2) community services targeted to low- or moderate-income individuals; (3) activities that promote economic development by financing businesses or farms that meet the size eligibility standards of the Small Business Administration's Development Company or Small Business Investment Company programs (13 C.F.R. 121.301) or have gross annual revenues of \$1 million or less; (4) activities that revitalize or stabilize low- or moderate-income census tracts, designated disaster areas, or distressed or underserved nonmetropolitan middle-income census tracts; or (5) Neighborhood Stabilization Program (NSP)-eligible activities in areas with HUD-approved NSP plans, which are conducted within two years after the date when NSP program funds are required to be spent and benefit low-, moderate-, and middle-income individuals and census tracts.

Consumer loan: A loan to one or more individuals for household, family, or other personal expenditures. It does not include a home mortgage, small business, or small farm loan. This definition includes the following categories: motor vehicle loans, credit card loans, home equity loans, other secured consumer loans, and other unsecured consumer loans.

Distressed nonmetropolitan middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as distressed if it is in a county that meets one or more of the following triggers: (1) an unemployment rate of at least 1.5 times the national average, (2) a poverty rate of 20.0% or more, or (3) a population loss of 10.0% or more between the previous and most recent decennial census or a net migration loss of 5.0% or more over the 5-year period preceding the most recent census.

Family: Includes a householder and one or more other persons living in the same household who are related to the householder by birth, marriage, or adoption. The number of family households always equals the number of families; however, a family household may also include nonrelatives living with the family. Families are classified by type as either a married-couple family or other family, which is further classified into "male householder" (a family with a male householder and no wife present) or "female householder" (a family with a female householder and no husband present).

Full-scope review: Performance is analyzed considering performance context, quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments), and qualitative factors (e.g., responsiveness).

Geography: A census tract delineated by the United States Bureau of the Census in the most recent decennial census.

Home Mortgage Disclosure Act (HMDA): The statute that requires certain mortgage lenders that do business or have banking offices in a metropolitan statistical area to file annual summary reports of their mortgage lending activity. The reports include data such as the race, gender, and income of applicants; the amount of loan requested; and the disposition of the application (i.e., approved, denied, or withdrawn).

Home mortgage loans: Includes home purchase and home improvement loans as defined in the HMDA regulation. This definition also includes multifamily (five or more families) dwelling loans, loans for the purchase of manufactured homes, and refinancings of home improvement and home purchase loans.

Household: Includes all persons occupying a housing unit. Persons not living in households are classified as living in group quarters. In 100 percent tabulations, the count of households always equals the count of occupied housing units.

Limited-scope review: Performance is analyzed using only quantitative factors (e.g., geographic distribution, borrower distribution, and total number and dollar amount of investments).

Low income: Individual income that is less than 50 percent of the area median income or a median family income that is less than 50 percent, in the case of a geography.

Market share: The number of loans originated and purchased by the institution as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the metropolitan statistical area/assessment area.

Metropolitan statistical area (MSA): An area, defined by the Office of Management and Budget, based on the concept of a core area with at least one urbanized area that has a population of at least 50,000. The MSA comprises the central county or counties containing the core, plus adjacent outlying counties having a high degree of social and economic integration with the central county as measured through commuting.

Middle income: Individual income that is at least 80 percent and less than 120 percent of the area median income or a median family income that is at least 80 percent and less than 120 percent, in the case of a geography.

Moderate income: Individual income that is at least 50 percent and less than 80 percent of the area median income or a median family income that is at least 50 percent and less than 80 percent, in the case of a geography.

Multifamily: Refers to a residential structure that contains five or more units.

Other products: Includes any unreported optional category of loans for which the institution collects and maintains data for consideration during a CRA examination. Examples of such activity include consumer loans and other loan data an institution may provide concerning its lending performance.

Owner-occupied units: Includes units occupied by the owner or co-owner, even if the unit has not been fully paid for or is mortgaged.

Qualified investment: A qualified investment is defined as any lawful investment, deposit, membership share, or grant that has as its primary purpose community development.

Rated area: A rated area is a state or multistate MSA. For an institution with domestic branches in only one state, the institution's CRA rating would be the state rating. If an institution maintains domestic branches in more than one state, the institution will receive a rating for each state in which those branches are located. If an institution maintains domestic branches in two or more states within a multistate MSA, the institution will receive a rating for the multistate metropolitan area.

Small loan to business: A loan included in "loans to small businesses" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$1 million or less and typically are either secured by nonfarm or nonresidential real estate or classified as commercial and industrial loans.

Small loan to farm: A loan included in "loans to small farms" as defined in the instructions for preparation of the Consolidated Report of Condition and Income (Call Report). These loans have original amounts of \$500,000 or less and are either secured by farmland or classified as loans to finance agricultural production and other loans to farmers.

Underserved middle-income census tract: A middle-income, nonmetropolitan census tract will be designated as underserved if it meets criteria for population size, density, and dispersion that indicate the area's population is sufficiently small, thin, and distant from a population center that the tract is likely to have difficulty financing the fixed costs of meeting essential community needs.

Upper income: Individual income that is more than 120 percent of the area median income or a median family income that is more than 120 percent, in the case of geography.

(For additional information, please see the Definitions sections of Regulation BB at 12 C.F.R. 228.12.)